Teachers' Pension Plan

2016 Annual Report

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Trustee message

More modern, more equitable: changes to the Teachers' Pension Plan

It was a defining year in the plan's history. In addition to announcing the plan's strongest valuation in years—which allowed us to lower employer contribution rates, maintain member contribution rates (which are still lower than employer contribution rates) and eliminate age restrictions on cost-of-living adjustments for retired members—we announced the most significant rule changes in half a century.

These changes—agreed to by the plan partners (British Columbia Teachers' Federation and the provincial government)—come into effect January 1, 2018.

The changes apply on a go-forward basis only. Regardless of a member's retirement date, the benefit for all service earned before January 1, 2018, will remain unchanged.

> A member's pension at retirement will be based on two sets of rules: those in effect before January 1, 2018, and those in effect on and after January 1, 2018

Why is the plan changing?

Changes are being made to modernize the plan and improve equity among all plan members

Modernization

The plan's current design was developed in the 1960s, when teachers generally started working full time at a younger age.

Today, the work environment has changed. Teachers may spend a considerable portion of their early career in part-time work. The plan needs to adapt to reflect these shifts.

Improving equity

The changes will make the plan more equitable for all members, regardless of retirement age, earnings or work experience.

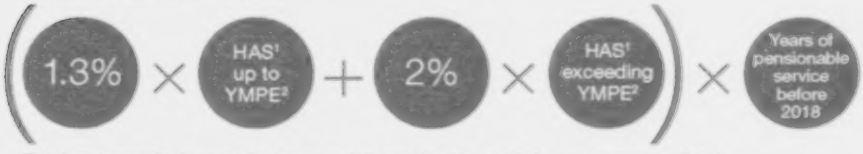
They will ensure members pay the same contribution rate—regardless of their salary—for the same benefit accrual.

In addition, an increased lifetime benefit will replace the bridge benefit for service earned on or after January 1, 2018; this is more equitable for members, regardless of retirement age.

What's the difference between pre-2018 rules and those in effect on and after January 1, 2018?

For pensionable service earned on or before December 31, 2017

Lifetime pension formula



Bridge benefit (payable to age 65 or death, whichever comes first)

For pensionable service earned on or after January 1, 2018

1 Highest average salary—the salary used in the calculation of pensions; it is the average of the highest five years of annual full-time equivalent salary and is expressed on a 12-month basis.

2 Year's maximum pensionable earnings—a salary amount set by the federal government each year to determine the maximum annual contribution to the Canada Pension Plan; for 2017, YMPE is $55,300.

	For pensionable service earned on or before December 31, 2017	For pensionable service earned on or after January 1, 2018
Member contribution rate	12.5 per cent of salary up to and including the year's maximum pensionable earnings (YMPE)* 14.0 per cent of salary above the YMPE	12.92 per cent of salary
Employer contribution rate	12.81 per cent of salary up to and including the YMPE 14.31 per cent of salary above the YMPE	13.23 per cent of salary
Maximum years of pensionable service	35	No maximum
Rule of 90	Applies	Does not apply (contributory service earned on or after January 1, 2018, will still count toward the rule of 90 to determine the reduction on the pre-2018 benefit)
Bridge benefit	Applies	Does not apply
Eligibility for unreduced pension	**Age 55 to 59** if a member's age plus years of contributory service totals at least 90 years (known as the rule of 90); all contributory service (before 2018 and after 2017) is used to determine if the pension before 2018 is unreduced **Age 60 to 64** with two or more years of contributory service **Age 65 and older**	**Age 55 to 60** if a member has at least 35 years of contributory service **Age 61 to 64** if a member has at least two years of contributory service **Age 65** with no minimum contributory service requirement
Reduced pension	If a member ends employment **before age 55 with fewer than two years of contributory service**, their pension is reduced five per cent for every year they are under age 65 If a member ends employment **before age 55 with more than two years of service** and takes their pension between ages 55 and 59, their pension will be reduced by the lesser of two calculations: • five per cent for every year they are under age 60 • five per cent for every year their age plus years of contributory service is less than 90	If a member retires before age 61 with fewer than 35 years of contributory service, their pension will be reduced 4.5 per cent for every year they are under age 61, providing they have at least two years of contributory service If a member retires **before age 65** with fewer than two years of contributory service, their pension will be reduced 4.5 per cent for every year they are younger than 65

* Year's maximum pensionable earnings—a salary amount set by the federal government each year to determine the maximum annual contribution to the Canada Pension Plan; for 2017, YMPE is $55,300.

	For pensionable service earned on or before December 31, 2017	For pensionable service earned on or after January 1, 2018
Reduced pension (cont.)	If a member ends employment and immediately retires **between ages 55 and 64 with fewer than two years of contributory service**, their pension is reduced five per cent for every year they are under age 65 If a member ends employment and immediately retires **between ages 55 and 59 with** • **between 2 and 10 years of contributory service, or** • **more than 10 years of contributory service (and does not have 20 months of contributory service or 10 months of pensionable service in the 24 months immediately before their termination date),** their pension is reduced by the lesser of two calculations: • five per cent for every year they are under age 60 • five per cent for every year their age plus years of contributory service is less than 90	
	If a member ends employment and **immediately retires with more than 10 years of contributory service (and has 20 months of contributory service or 10 months of pensionable service in the 24 months immediately before their termination date),** their pension is reduced by the lesser of two calculations: • three per cent for every year they are under age 60 • three per cent for every year their age plus years of contributory service is less than 90	

What do employers need to do?

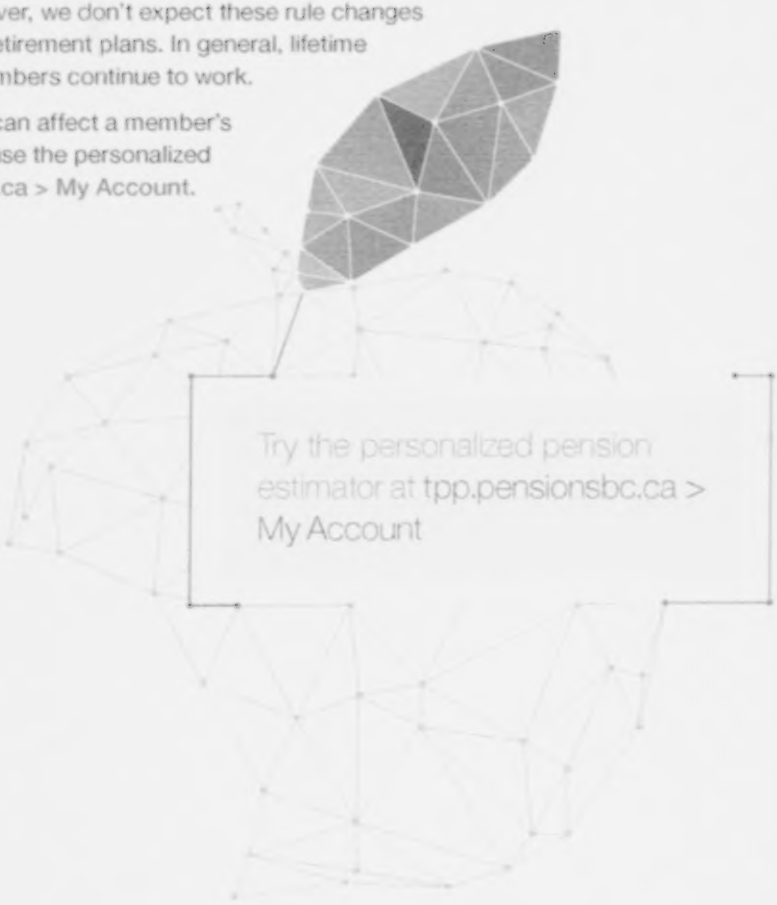
Changes to plan design will affect employer reporting. Employers need to ensure their payroll systems are ready for the new single contribution rates as well as the renewal of contributions for members with 35 or more years of service. Both these changes are effective January 1, 2018; we'll be communicating with employers throughout the year on these topics.

What do members need to do?

Members just need to stay informed. They can learn more at tpp.pensionsbc.ca/plandesign2018.

We understand pensions are very important to members, and any change to the plan can raise questions; however, we don't expect these rule changes to significantly affect any member's retirement plans. In general, lifetime pensions will continue to grow as members continue to work.

To see how the plan design changes can affect a member's pension, we encourage members to use the personalized pension estimator at tpp.pensionsbc.ca > My Account.



Executive summary

2016 by the numbers

Investments

2016

$25.5 billion in assets

2014

$22.7 billion

2012

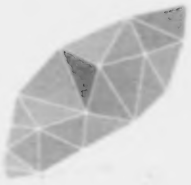
$18.3 billion

Teachers' Pension Plan

Membership

The plan has almost

94,000 members



Active members outnumber retired members

1.2:1

down from

1.4:1

in 2012

Benefits

The plan paid out

$1.1 billion

in benefits in 2016

6.4%

10-year annualized rate of return beat the benchmark by

+0.6%

6.0%

2016 annual rate of return below the benchmark by

−0.4%

As at December 31, 2016, there were

36,510

pensions being paid

Plan financials

Highlights: the financial year in review

- The Teachers' Pension Plan (plan) investment portfolio earned 6.0 per cent net of fees for 2016, below the market benchmark of 6.4 per cent.
- Plan investment assets increased from $24.4 billion as at December 31, 2015 to $25.5 billion as at December 31, 2016.
- Breakdown:
  - The plan's combined public equities returned 6.1 per cent
  - Global equities and emerging market equities earned 2.7 per cent and 1.9 per cent, respectively
  - Canadian equities returned 19.5 per cent, a good return on the back of strong results from energy, materials and financials aiding resource-rich countries like Canada
  - Canadian real estate earned 5.3 per cent, dampened by economic weakness in Alberta
  - The combined fixed income portfolio, which includes money market, bonds and mortgages, earned 2.5 per cent, as interest rates remained low

Investment overview

The Teachers' Pension Board of Trustees (board) is responsible for overseeing an investment portfolio of approximately $25 billion for the benefit of plan members. The board's primary financial objective is to ensure the long-term sustainability of the plan, which (along with other factors) depends on earning sufficient investment returns over a longer time horizon. Short-term volatility is monitored and managed through longer-term investment objectives.

The Teachers' Pension Plan Statement of Investment Policies and Procedures outlines the board's investment strategy and overall framework for managing plan assets. The board approves the long-term asset mix policy, recognizing diversification of investments as a key principle in managing risk. Investments are held in a range of asset types (e.g., bonds, mortgages, equities, real estate, infrastructure and private placements) across industry sectors and global markets. The board oversees the management of plan assets through its investment management agent, British Columbia Investment Management Corporation (bcIMC).

Investment strategy

6.4%

Over the last ten-year period, the investment portfolio's strategy earned 6.4% on an annualized basis, exceeding the benchmark of 5.8%

The plan's long-term asset mix policy reflects an increased focus on regulated utilities, renewable resources and real assets, such as land and buildings. Real assets, primarily transacted in private markets, are tangible physical investments ideally suited for the long-term financial objectives of the plan. They typically provide reliable cash flows, appreciate in value and protect against inflation while avoiding short-term volatility in public markets. These investments also allow for more direct asset management, which enables bcIMC to influence the strategic direction of these companies and create long-term value for the plan.

Report on investments

bcIMC seeks to maintain a long-term investment strategy that meets the pension promise with an appropriate level of risk. Over the last ten-year period, which included the global financial crisis, the investment portfolio's strategy earned 6.4 per cent on an annualized basis, exceeding the benchmark of 5.8 per cent. In 2016, the market value of the plan's investments increased from $24.4 billion to $25.5 billion. The plan's investment portfolio earned 6.0 per cent net of fees for 2016, underperforming the market benchmark of 6.4 per cent. Investors faced a challenging market environment in 2016 due to a number of geopolitical uncertainties that affected fiscal and monetary policies globally.

Driving uncertainty during the year were a series of major geopolitical events and changing macroeconomic conditions: the sharp decline in oil prices in early 2016, the United Kingdom's surprising referendum decision to leave the European Union (Brexit), and the largely unexpected U.S. election results. Turbulent market conditions followed Brexit, but developed equity markets gained steadily following the U.S. election and the second interest rate hike since the 2008 financial crisis. Overall, financial markets continued to face headwinds in 2016, with low global economic growth and still historically low interest rates.

The plan's long-term asset mix policy reflects an increased focus on regulated utilities, renewable resources and real assets, such as land and buildings

Looking at asset class results, combined public equities achieved a return of 6.1 per cent. Canadian equities surged ahead 19.5 per cent, supported by a rebound in commodity prices last year. By comparison, global equities and emerging market equities earned 2.7 per cent and 1.9 per cent, with underperformance in India and China a factor. The combined fixed income portfolio, which includes money market, bonds and mortgages, earned 2.5 per cent, as interest rates continue to remain low. Canadian real estate returned 5.3 percent for the year, with strong returns in Ontario and British Columbia dampened by energy sector weakness in Alberta.

Responsible investing

Responsible investing is an integral part of the plan's investment strategy. The plan and bcIMC believe companies that do a good job of managing environmental, social and governance (ESG) matters take on less risk and perform better financially over the longer term. With the support of the board, bcIMC proactively engages companies to raise awareness of ESG factors that may emerge over time and affect the cash flows and long-term value of the portfolio. Through constructive dialogue, bcIMC encourages companies to be transparent and report on their risks. It also encourages companies to adopt good governance practices, apply standards of safety and employee welfare, and be responsible in their operations by effectively managing relationships with suppliers, customers and communities.

bcIMC collaborates with other investors and organizations to enhance governance practices and standards. It's a signatory to the United Nations–supported Principles for Responsible Investing, an international network of investors that share the goal of integrating ESG factors into the processes and activities of institutional investors. Other organizations bcIMC participates in include the Canadian Coalition for Good Governance, CDP (formerly Carbon Disclosure Project) and Investor Network on Climate Change. During 2016, bcIMC also expanded its role in responsible investing as a member of the steering committee for the 30% Club, which advocates for companies to enhance gender diversity, and the Sustainability Accounting Standards Board, which has a mandate to promote standards of sustainability reporting. Plan members can learn more about bcIMC's responsible investment activities on its website.

Actuarial valuation: the plan's report card

The most recent actuarial valuation, measured as at December 31, 2014, showed the plan's basic account had actuarial assets of $22.9 billion and actuarial liabilities of $22.4 billion, meaning the plan has a surplus and is 102 per cent funded.

Every three years, an independent actuary assesses the long-term financial health of the plan. The valuation produced is like a report card showing whether the plan is on track to meet its pension promise.

Working from a number of assumptions, the actuary compares current assets, future contributions and investment returns against the money to be paid out in the future for pension benefits (liabilities). If the assets are the same as or more than the liabilities, the plan is fully funded. A shortfall in assets is an unfunded liability. The board must address an unfunded liability by adjusting contribution rates for members and employers.

The next valuation will be as at December 31, 2017, with results available in late 2018.

Valuation history

as at December 31 ($ millions)

	Basic pension benefits Surplus (unfunded liability)		
	2014	2011	2008
For funding purposes (entry-age basis)	$449	$(855)	$(477)
Funding ratio	102%	96%	97%

102%

As at December 31, 2014, the plan was fully funded at 102%

Managing costs

Managing investment costs is important to the board, and bcIMC's fees continue to be competitive with those of other investment managers. bcIMC operates on a cost-recovery, not-for-profit basis. Its large asset size provides access to substantial economies of scale. While costs are important, the board focuses on overall net returns so that a greater proportion of investment returns will pass through to the plan, contributing to its long-term sustainability.

Tables, charts and graphs (plan financials)

Investment asset mix and performance

as at December 31, 2016 (%)

	Approved range	Target asset mix market value	Actual asset mix market value	Rate of return	Performance benchmark
Fixed income					
Short term	0–10	2	1.9	0.4	0.5
Mortgages	0–10	5	2.0	3.6	1.9
Nominal bonds	5–25	11	10.3	3.0	1.7
Real return bonds	0–10	5	2.8	2.6	2.9
	12–32	**23**	**17.0**	**2.5**	**1.9**
Public equity					
Canadian equities	5–20	12	12.6	19.5	21.1
Global equities	15–35	25	31.2	2.7	3.3
Emerging markets	2–15	8	7.0	1.9	7.3
	35–60	**45**	**50.8**	**6.1**	**8.7**
Real estate (domestic)	**10–25**	**18**	**14.2**	**5.3**	**5.5**
Private placements*	**0–12**	**6**	**6.2**	**25.3***	**19.1***
Infrastructure and renewable resources*	**2–15**	**8**	**10.5**	**10.5***	**8.0***
Other	**0–5**	**0**	**1.3**	**6.2**	**3.1**
Total asset mix			**100.0**	**6.0**	**6.4**

* The illiquid assets are only valued once a year as of December 31. The rates of return for private placements and infrastructure and renewable resources reflect December 31, 2015, internal rates of return; this is the industry standard for calculating returns for illiquid assets.

Five-year financial summary

($ millions)

For the year ended December 31	2016	2015	2014	2013	2012
Increase in assets					
Investment income	**$1,488**	$ 2,149	$ 2,424	$ 2,684	$ 1,778
Contributions					
Members	**362**	356	303	327	307
Employers	**403**	418	357	384	368
Transfers from other plans	**9**	4	8	7	5
Total increase in assets	**2,262**	2,927	3,092	3,402	2,458
Decrease in assets					
Pension benefits	**1,124**	1,093	1,046	1,008	960
Transfers to other plans	**7**	7	5	8	6
Retired member group benefits	**—**	—	—	—	3
Investment and administration costs	**62**	56	46	40	40
Total decrease in assets	**1,193**	1,156	1,097	1,056	1,009
Increase in net assets	**1,069**	1,771	1,995	2,346	1,449
Net assets available for benefits at beginning of year	**24,460**	22,689	20,694	18,348	16,899
Net assets available for benefits at end of year	**$25,529**	$24,460	$ 22,689	$20,694	$18,348
Investment and administration costs as a percentage of net assets (%)[1,2]					
Investment management[1,2]	**0.26**	0.22	0.20	0.20	0.23
Benefits administration	**0.06**	0.05	0.05	0.05	0.06

1 Investment costs as a percentage of net assets include certain external investment management costs totalling $15.0 million (2015—$10.6 million; 2014—$10.7 million; 2013—$12.1 million; 2012—$13.1 million) that are netted against investment income; they are not included in investment and administration costs in the financial statements. Included in the 2016 external investment management costs are certain costs that were not captured in 2012 through 2015. Had these costs been captured, they would have increased investment management costs by approximately 0.02 per cent each year.

2 Investment costs as a percentage of net assets exclude external indirect investment management costs netted against investment income on the statement of changes in net assets available for benefits. This is consistent with current industry practice; including these costs using the budgeted amount would have increased investment management costs as a percentage of net assets by an estimated 0.20 per cent in 2016. External indirect investment management costs include limited partnership management fees and other fees principally incurred within investments held in the private equity, infrastructure and global real estate asset classes.

Investments held

as at December 31, 2016

	Market value ($ millions)	Asset mix market value (%)
Short-term		
Money market	$ 205	0.8
Bonds	272	1.1
	477	**1.9**
Bonds		
Global government	182	0.7
Nominal	2,268	8.9
High yield	169	0.7
Real return bonds	718	2.8
	3,337	**13.1**
Mortgages	**497**	**2.0**
Canadian equities		
Indexed	1,932	7.6
Active	1,275	5.0
	3,207	**12.6**
Global equities		
Global indexed	1,556	6.1
Global active	1,748	6.9
U.S. indexed	2,173	8.5
U.S. active	248	1.0
Europe indexed	372	1.4
Europe active	475	1.9
Asian indexed	543	2.1
Asian active	828	3.3
	7,943	**31.2**
Emerging markets	**1,799**	**7.0**
Real estate*	**3,624**	**14.2**
Private placements*	**1,581**	**6.2**
Infrastructure and renewable resources		
Infrastructure	2,245	8.8
Renewable resources	428	1.7
	2,673	**10.5**
Other	**335**	**1.3**
Total investments	**25,473**	**100.0**
2015 comparison	**$ 24,363**	

* Asset classifications vary from the financial statements for the purpose of performance reporting.

Top 25 public equity exposures[1]

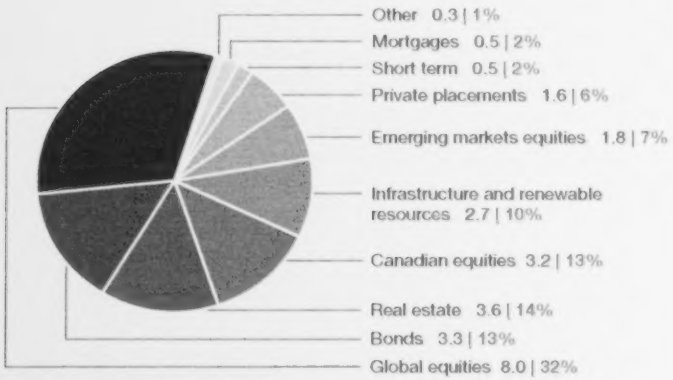
as at December 31, 2016

Company	% of portfolio	% of public equity	Total exposure ($ millions)
Royal Bank of Canada	0.9	1.7	$ 219
The Toronto-Dominion Bank	0.8	1.6	211
Chinese state-controlled companies[2]	0.7	1.3	165
Bank of Nova Scotia	0.5	1.0	135
Suncor Energy Inc.	0.5	0.9	122
Canadian National Railway Co.	0.4	0.9	112
Microsoft Corp.	0.4	0.8	110
Alphabet Inc.	0.4	0.8	102
Samsung Electronics Co. Ltd.	0.4	0.8	98
Taiwan Semiconductor Manufacturing Co.	0.4	0.7	97
Apple Inc.	0.4	0.7	95
Enbridge Inc.	0.3	0.7	87
Bank of Montreal	0.3	0.6	84
Exxon Mobil Corp.	0.3	0.6	81
Brookfield Asset Management Inc.	0.3	0.6	79
Canadian Natural Resources Ltd.	0.3	0.6	75
TransCanada Corp.	0.3	0.6	74
Tencent Holdings Ltd.	0.3	0.6	74
Canadian Imperial Bank of Commerce	0.3	0.5	67
Johnson & Johnson	0.3	0.5	66
BCE Inc.	0.3	0.5	62
AIA Group Ltd.	0.2	0.5	62
Manulife Financial	0.2	0.5	60
Sun Life Financial Inc.	0.2	0.5	59
Aberdeen Global Indian Equity Fund	0.2	0.4	57
Total top 25	9.6	18.9	2,453
Total public equity			12,949
Total portfolio			**$ 25,473**

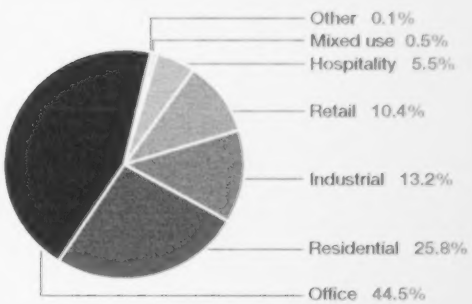
1 Company regional exposures are based on pool fund asset class designations per Statement of Investment Policy and Procedures.

2 Company exposures are based on the ultimate parent company exposure, regardless of where the security is listed or traded. As a result, the above exposure report shows Chinese state-controlled companies as one of the top exposures because the ultimate parent company for many companies in China is the Chinese government. The advantage of showing exposure in this manner is that it aggregates the concentration risk more accurately.

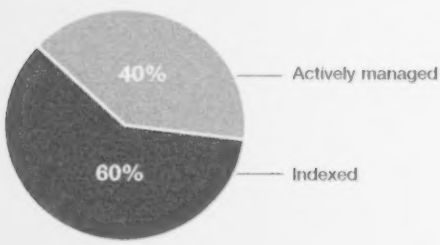
Investment holdings
market value as at December 31, 2016 ($ billions)


Other 0.3 | 1%
Mortgages 0.5 | 2%
Short term 0.5 | 2%
Private placements 1.6 | 6%
Emerging markets equities 1.8 | 7%
Infrastructure and renewable resources 2.7 | 10%
Canadian equities 3.2 | 13%
Real estate 3.6 | 14%
Bonds 3.3 | 13%
Global equities 8.0 | 32%

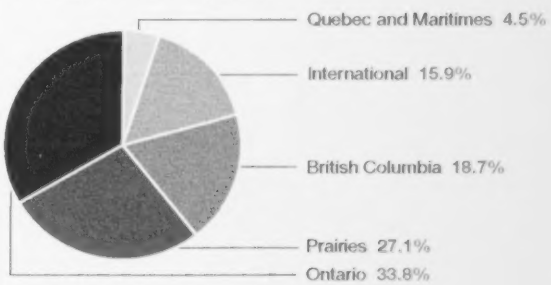
Domestic real estate, by type
as at December 31, 2016



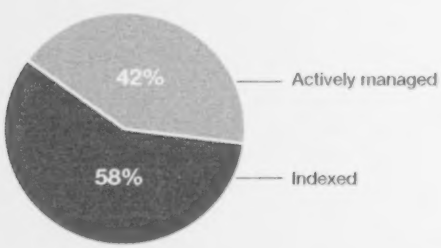
Canadian equities
market value as at December 31, 2016



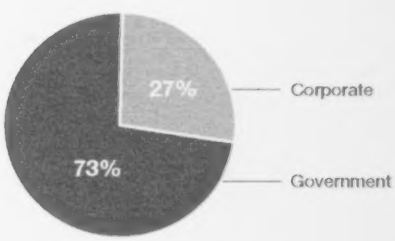
Real estate, by location
as at December 31, 2016



Global equities
market value as at December 31, 2016

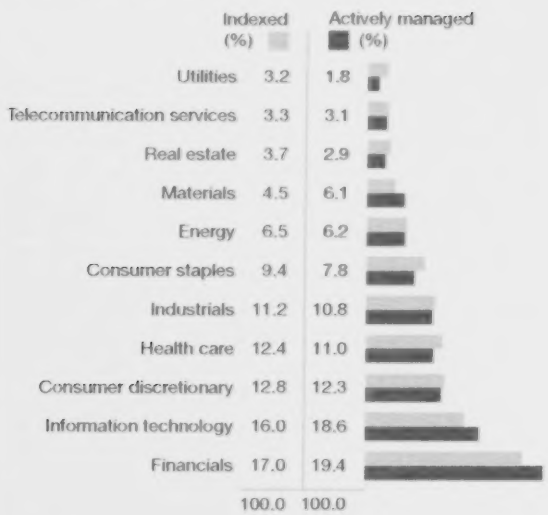


Bonds
market value as at December 31, 2016

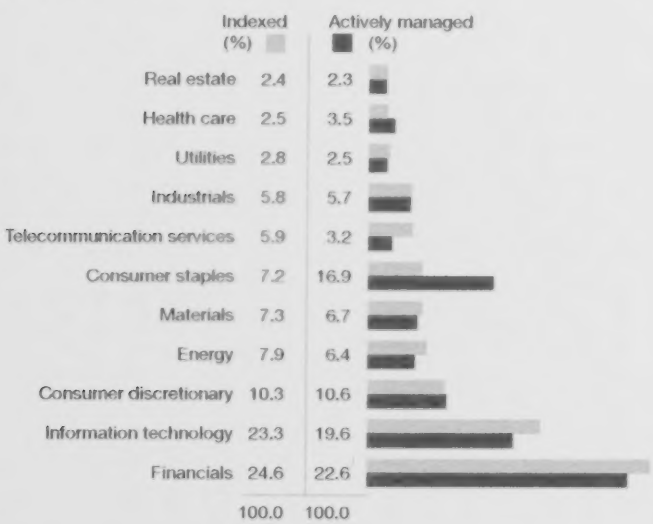


Canadian equities, by sector
as at December 31, 2016

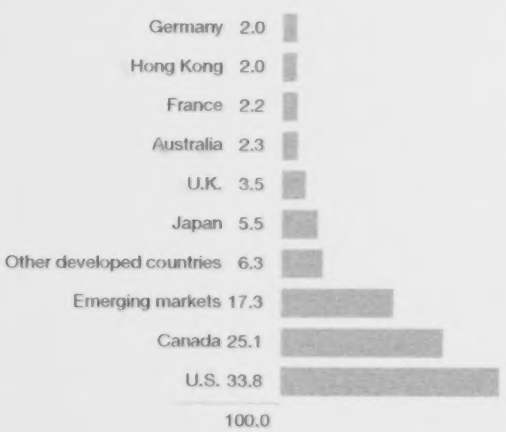
Global equities, by sector
as at December 31, 2016



Emerging markets equities, by sector
as at December 31, 2016



Public equities, by country (%)
as at December 31, 2016



Who we are

The 2016 Teachers' Pension Board of Trustees

The Teachers' Pension Plan (plan) Joint Trust Agreement between the plan partners—the BC government and BC Teachers' Federation (BCTF)—governs the plan.

The Teachers' Pension Board of Trustees (board) is responsible for managing the pension plan; the joint trust agreement sets out conditions for the board to follow when implementing certain changes. The board may change the plan rules to comply with legislative requirements. Other plan rule changes are allowed only if they can be funded by pension fund surpluses and remain cost-neutral to the plan.

BACK ROW (LEFT TO RIGHT)

Chung Yan Ip, appointed by BCTF
Rob Taylor, appointed by BCTF
Wayne Jefferson, appointed by BC government
Chris Skillings, appointed by BC government
Reg Bawa, appointed by BC government

FRONT ROW (LEFT TO RIGHT)

Dale Lauber, appointed by BCTF
Ken Tannar, appointed by BCTF
Joan Axford, chair, appointed by BC government
Brad Underwood, appointed by BC government
Linda Watson, vice-chair, appointed by BCTF

Trustee activities

During 2016, the board met nine times over 13 days. Trustees also participated in standing and ad hoc committees, and attended a number of conferences, including the annual BC Public Sector Pension Conference. In addition to scheduled training sessions, individual trustees participated in educational opportunities to increase their effectiveness on the board.

Trustee remuneration

The plan compensates trustees or their employer for time spent on board business. Guidelines and rates are set out in the Teachers' Pension Board of Trustees Remuneration Policy. Under the policy, remuneration may be adjusted annually by an amount equal to the cost-of-living adjustment made to pension payments.

The plan also reimburses trustees for any expenses from attendance at educational events and meetings for board business, within board policy limits.

Board of trustees member remuneration

year ended December 31, 2016

Board member	Meeting days	Per diem ($397/ meeting)	Annual stipend	Chair and vice-chair remuneration	Total payments	Paid to
Joan Axford (chair)	41.5	$16,471.50	$3,972.00	$3,972.00	$24,415.50	Joan Axford
Linda Watson (vice-chair)	41.0	16,271.00	3,972.00	1,986.00	22,229.00	Linda Watson
Reg Bawa	20.0	7,940.00	3,972.00	–	11,912.00	Minister of Finance
Chung Yan Ip	25.0	9,925.50	–	–	9,925.50	BC Teachers' Federation
	–	–	3,972.00	–	3,972.00	Chung Yan Ip
Wayne Jefferson	3.0	1,191.00	993.00	–	2,184.00	SD75 (Mission)
	23.5	9,329.50	2,979.00	–	12,308.50	Wayne Jefferson
Dale Lauber	28.0	11,116.00	3,972.00	–	15,088.00	Dale Lauber
Chris Skillings	18.0	7,146.00	3,972.00	–	11,118.00	Minister of Finance
Ken Tannar	25.0	9,925.50	–	–	9,925.50	BC Teachers' Federation
	–	–	3,972.00	–	3,972.00	Ken Tannar
Rob Taylor	2.0	794.00	1,986.00	–	2,780.00	Rob Taylor
	13.5	5,359.50	1,986.00	–	7,345.50	SD27 (Cariboo–Chilcotin)
Brad Underwood	20.5	8,139.00	3,972.00	–	12,111.00	Minister of Finance
Total		**$ 103,608.50**	**$39,720.00**	**$5,958.00**	**$149,286.50**	

Trustees participate in a number of committees.

Teachers' Pension Board of Trustees committees

Benefits and Communications Committee
Provides advice and recommendations to the board on benefit and communication issues, and makes decisions under authority delegated by the board. In 2016, it met five times over five days to address

- post-retirement group benefits,
- plan rule amendments,
- reciprocal transfer agreements, and
- communications products, including the *Report to Members*, the newsletter for retired members and the annual report.

Governance Committee
Assists the board in fulfilling its governance responsibilities by considering issues such as

- board policy development and review,
- risk management review,
- board strategic planning mechanisms,
- development of the board's assessment tools, and
- any other item referred by the board.

This committee met three times in 2016.

Interplan committees

Executive Forum
This group of College, Municipal, Public Service and Teachers' pension boards of trustees chairs, vice-chairs and senior administrators meets to discuss areas of common interest and provide an opportunity to keep up with activities of the other boards.

Interplan Audit Committee
On behalf of the College, Municipal, Public Service and Teachers' pension boards, helps provide

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements, and
- an annual report with audited financial statements.

This committee met four times in 2016.

Interplan Executive Committee

Board chairs, vice-chairs and senior administrators from the College, Public Service and Teachers' pension boards meet to discuss common interests and keep up to date on board activities. This committee met seven times in 2016.

Interplan Investment Committee

Examines investment issues common to the College, Public Service and Teachers' pension boards, and makes recommendations to each board on generic investment policy and procedure statements, and investment issues identified by a board, bcIMC or the committee itself. It considers

- investment industry trends,
- regulatory and legal developments,
- responsible investing issues,
- asset class reviews,
- updates on capital markets, and
- new investment products.

This committee met four times in 2016.

Interplan Trustee Education Committee

A forum for the College, Municipal, Public Service and Teachers' pension boards to develop trustee knowledge and skills, work together on common educational issues and provide information on trends in a variety of jurisdictions (e.g., benefits, pensions, investments). Organizes the annual BC Public Sector Pension Conference.

This committee met three times in 2016.

Interplan Website Review Committee

Meets as required to consider significant plan website architecture issues and design improvements for the College, Municipal, Public Service, Teachers' and WorkSafeBC pension plans (administered by Pension Corporation).

This committee met two times in 2016.

Interplan Post-Retirement Group Benefits Committee

Ad hoc committee; prepared and conducted a request for proposal and selected the new extended health care and dental insurance carrier for retired members of the College, Public Service and Teachers' pension plans.

This committee met six times in 2016.

Agents and service providers

British Columbia Investment Management Corporation (bcIMC) provides investment management services to the plan. One of Canada's largest investment managers, bcIMC manages more than $121 billion in assets on behalf of public sector pension plans, the Province of British Columbia, publicly administered trust funds and public bodies.

British Columbia Pension Corporation is the administrative agent working on behalf of the board. It provides pension administration services to the plan, including providing plan information to members and employers, managing contributions and member records, paying pension benefits, and providing policy, financial and communication services. One of Canada's largest pension benefit administrators, BC Pension Corporation serves the largest public sector pension plans in British Columbia, representing more than 550,000 members and 1,100 employers.

Eckler Ltd. serves as the plan's independent actuary. Eckler conducts an actuarial valuation on the plan's funding every three years and supports the board in its decision making as appropriate. The next valuation will be presented to the board in fall 2018.

Lawson Lundell LLP is the plan's legal counsel.

Pacific Blue Cross provides retired plan members access to voluntary group extended health care (EHC) and dental coverage until March 31, 2017.

Green Shield Canada provides retired plan members access to voluntary group EHC and dental coverage as of April 1, 2017.

KPMG LLP provides external audit services for the plan.

Plan updates

Contribution rate changes

Amendment 27, effective July 1, 2016
What members need to know

Effective July 1, 2016, employer contributions to the plan's basic account were reduced 3.77 per cent, while their contributions to the inflation adjustment account (IAA) increased 1.95 per cent, for an overall employer contribution rate reduction of 1.82 per cent.

When there is a valuation surplus, the board acts on specific instructions outlined in the joint trust agreement. The agreement allows the plan to take a strong step toward the goal of balancing employer and member contribution rates. Currently, employers pay higher contribution rates than members; effective July 1, 2016, this gap narrowed.

Cost-of-living adjustments now available to all retired members

Amendment 28, effective January 1, 2017
What members need to know

The sustainability review of cost-of-living adjustments (COLAs) that took place at the same time as the 2014 valuation showed COLAs are sustainable for all retired members, in part due to the increase in employer contributions to the IAA.

Effective January 1, 2017, all retired members are eligible for COLA, regardless of age; retired members will no longer have to be age 56 or older. COLA sustainability will be reviewed again at the next valuation.

COLAs remain a non-guaranteed benefit; however, the board is committed to ensuring COLAs are sustainable and available well into the future.

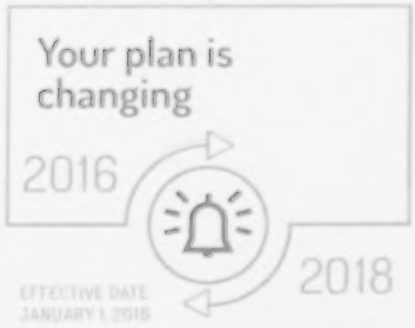
The 2014 valuation showed COLAs are sustainable for all retired members

Plan rule changes for 2018

Amendment 29, effective January 1, 2018
What members need to know

In October 2016, the Teachers' Pension Board of Trustees announced changes to modernize the plan and make it more equitable for members. The changes come into effect January 1, 2018.

These changes will apply to the pensions of all members with service on or after January 1, 2018. For more information, visit tpp.pensionsbc.ca/plandesign2018 or see the trustee message on page 1.



Plan details

How the plan provides value

The plan provides significant value for members and employers. It is a long-term investment that provides financial security for members and their families by making use of internal resources and expertise.

Employers that offer the promise of secure retirement income to employees are employers of choice; the plan enables employers to offer retirement security without high investment management and administration fees.

Members and employers both pay into the plan.

The benefit for members—a lifetime income for themselves, and possibly their loved ones, after retirement—far exceeds the cost. The average retired member receives far more in pension payments than what they contributed (plus interest) during their teaching career.

The benefit for members—a lifetime income for themselves, and possibly their loved ones, after retirement—far exceeds the cost

The plan could not promise a lifetime retirement income based on member and employer contributions alone—this is where investments come in.

The plan collects and "grows" money in a structured way so all members can have a secure, predictable retirement income.

How the plan works

In general, here's how it works:

- Plan members and employers contribute to the plan. These contributions, along with income earned from investing the contributions, make up the plan's financial assets.
- The plan's investment management agent—British Columbia Investment Management Corporation—determines how best to invest the plan's financial assets within guidelines determined by the plan's board.
- Over time, long-term investments form the basis of the plan's financial health, making up the largest portion of the money needed to pay pensions.
- An independent actuary regularly monitors the plan's financial health and ensures contributions and investment income are sufficient to pay out the pensions promised to all plan members. If the actuary finds that contributions and income are insufficient, they must recommend increased contributions.

The Teachers' Pension Plan is a defined benefit plan. This means that members' pension income is based on their salary and years of service, not on how much money they pay into the plan or the performance of the plan's investments. A defined benefit pension allows members to prepare for retirement with certainty: with a pension formula in place, they can accurately estimate their pension income long before they begin receiving it.

Did you know?

- The plan is a highly efficient retirement savings option, with low fees—much lower, for the most part, than the fees paid by private investors.
- The plan is well funded, which means it is sustainable.
- Member lifetime pensions are pre-funded; the plan is designed fairly to ensure each generation pays in advance for its own benefits.
- The plan allows more than 90,000 members to count on a guaranteed, predictable income in retirement.
- Approximately 80 per cent of the cost of pensions is paid by plan investments; the remainder comes from member and employer contributions.
- Members have two key options for maximizing the value of their pension benefit:
  - transferring service—moving pensionable service from one plan to another
  - buying back periods of service—paying for periods of employment not already counted as service with the plan (e.g., parental leave)

The plan allows more than 90,000 members to count on a guaranteed, predictable income in retirement.

Security and dependability

A member's basic pension payment is calculated using their highest average salary, years of pensionable service and age at retirement. The basic pension payment is secure, dependable and guaranteed for life. It's paid for as long as the member lives and may, depending on choices made at retirement, continue to the member's spouse or beneficiary(ies) after the member dies.

Over and above basic pensions, the plan may also grant cost-of-living adjustments (COLAs). COLAs are not guaranteed; however, once granted, each year's COLA becomes part of the basic lifetime pension. Retired plan members also have voluntary access to unsubsidized extended health care and dental programs. More information about COLAs and post-retirement group health benefits is available on the plan website.

By contributing to a secure, well-funded pension plan, members are preparing now for the future.

Tables, charts and graphs (plan details)

Average and median pensions in pay[1]
as at December 31, 2016

Number of pensions	36,510
Average value	$30,662
Median value	$30,588

1 Includes bridge benefit for those receiving pensions before age 65.
2 The average value reflects the total value of all pensions paid by the plan divided by the total number of recipients in the plan.
3 The median value denotes the halfway point: half of the pensions paid by the plan are greater than this amount and half are smaller.

Contribution rates as a percentage of salary

	Prior to July 1, 2013		Effective July 1, 2013		Effective July 1, 2016	
	Up to YMPE*	Over YMPE	Up to YMPE	Over YMPE	Up to YMPE	Over YMPE
Member	11.20	12.70	12.50	14.00	12.50	14.00
Employer	13.33	14.83	14.63	16.13	12.81	14.31
Total	**24.53**	**27.53**	**27.13**	**30.13**	**25.31**	**28.31**

* Year's maximum pensionable earnings—a salary amount set by the federal government each year to determine the maximum annual contribution to the Canada Pension Plan; for 2016, YMPE was $54,900.

Pensions 2007–2016

year ended December 31

	New pensions during year	Pension terminations	In force at end of year	Basic pensions paid $ millions	Inflation supplements paid $ millions	Total pensions paid $ millions
2016	**1,518**	**607**	**36,510**	**$ 906.2**	**$ 187.8**	**$ 1,094.0**
2015	1,432	488	35,599	877.4	184.2	1,061.6
2014	1,687	482	34,655	846.7	171.4	1,018.1
2013	1,651	363	33,450	810.9	167.4	978.3
2012	1,544	365	32,162	773.6	162.3	935.9
2011	1,574	412	30,983	739.3	140.9	880.2
2010	1,631	331	29,821	700.9	137.9	838.9
2009	1,627	327	28,521	662.8	143.2	806.0
2008	1,765	403	27,221	623.3	124.0	747.3
2007	2,027	370	25,859	576.9	112.3	689.2

Average value of new pensions*

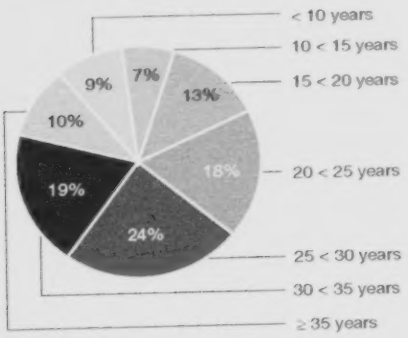
year ended December 31, 2016

Service (years)	Total new pensions	Average annual salary base	Average annual pension	Median annual pension	Average present value	Total present value of new pensions ($ millions)
< 10	135	$ 64,000	$ 6,400	$ 5,700	$ 115,000	$ 15.5
10 < 15	115	74,000	15,800	16,000	278,000	32.0
15 < 20	195	78,000	25,100	25,700	450,000	87.8
20 < 25	278	81,000	32,900	33,200	597,000	166.0
25 < 30	359	82,000	40,700	41,800	747,000	268.2
30 < 35	288	87,000	50,700	50,500	987,000	284.3
≥ 35 years	148	91,000	54,300	53,800	1,022,000	151.3
Total	**1,518**	**$81,000**	**$35,600**	**$36,300**	**$ 660,000**	**$1,005.1**

* Average values reflect the total value of new pensions granted during the year divided by the total number of recipients. In the case of median pensions, half of retirees receive more than this amount and half receive less. Pensions begun before the age of 65 typically include a bridge benefit, which ends at age 65.

New pension recipients by years of service

as at December 31, 2016



New pensions, by age at retirement

year ended December 31, 2016

Years of service	< 55	55 < 60	60 < 65	≥ 65	Total
< 10 years	—	56	51	28	**135**
10 < 15	4	33	52	26	**115**
15 < 20	1	74	89	31	**195**
20 < 25	1	114	121	42	**278**
25 < 30	4	158	161	36	**359**
30 < 35	1	170	91	26	**288**
≥ 35 years	—	32	79	37	**148**
Total	**11***	**637**	**644**	**226**	**1,518**
Average service	21	25	24	23	**24**
Average age					**60**

* These members are limited members or receiving survivor pensions.

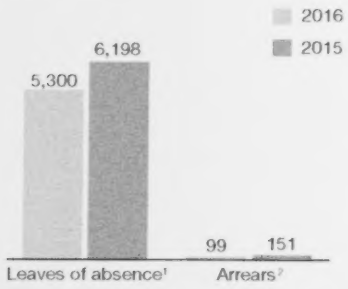
New pensions, by type*

year ended December 31

	Regular	Limited members*	Survivor	Disability	LTD to pension	Deferred	Total
2016	**1,256**	**36**	**12**	—	**92**	**122**	**1,518**
2015	1,148	50	13	1	114	106	1,432
2014	1,421	54	13	—	108	91	1,687
2013	1,334	70	13	—	113	121	1,651
2012	1,278	37	19	1	117	92	1,544
2011	1,389	—	22	1	108	54	1,574
2010	1,428	—	12	—	115	76	1,631
2009	1,387	—	20	—	133	87	1,627
2008	1,518	—	20	—	129	98	1,765
2007	1,819	—	24	—	116	68	2,027

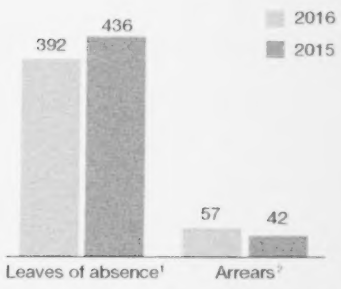
* Prior to 2012, new limited members were included as part of new regular pensions.

Value of purchases of service
year ended December 31
($ thousands)



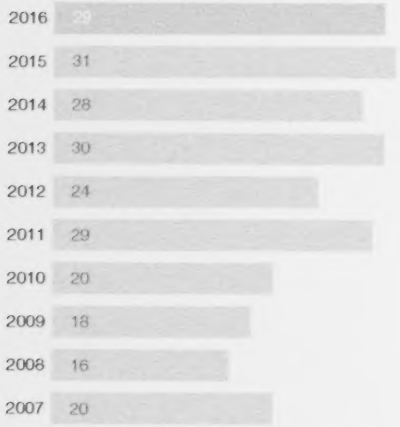
1 A leave of absence is an employer approved absence from work.
2 Arrears occur when contributions should have been made on a member's behalf but were not.

Number of purchases of service
year ended December 31



1 A leave of absence is an employer approved absence from work.
2 Arrears occur when contributions should have been made on a member's behalf but were not.

Value of termination and refund benefits[1] paid[2]
year ended December 31
($ millions)



1 A member who ends their participation in the plan may, if eligible, choose to receive a refund or termination benefit.
2 Includes death benefits paid.

Number of termination and refund benefits[1] paid[2]
year ended December 31

1 A member who ends their participation in the plan may, if eligible, choose to receive a refund or termination benefit.
2 Includes death benefits paid.

Plan membership

Eligibility for membership

Plan membership is open to

- all certificated teachers (including teachers teaching on call),
- principals and vice-principals,
- directors of instruction,
- superintendents and assistant superintendents,
- associated professionals appointed by a board of education in the BC public school system, and
- eligible employees of employers approved by the Teachers' Pension Board of Trustees.

New employees are immediately enrolled in the plan and cannot opt out.

Types of members

- **Active members** currently contribute (or no longer contribute because they have earned 35 or more years of pensionable service*), receive benefits from an approved group disability plan or are on an approved leave of absence. There are 44,814 active members in the plan—a decrease of 0.2 per cent from 2015.
- **Inactive members** ended employment with a plan employer and left contributions in the plan. They may be eligible for a pension in the future. Those not eligible may become eligible if they return to work for a plan employer, make contributions and accrue additional service. There are 12,569 inactive members in the plan—an increase of 2.4 per cent from 2015.
- **Retired members** currently receive a pension. This group also includes beneficiaries or survivors receiving a pension after the death of a plan member and those receiving a disability pension. There are 36,510 retired members in the plan—an increase of 2.6 per cent from 2015.
- **Limited members** are former spouses of plan members who are entitled to a portion of a plan member's pension benefits (once they or the plan member have submitted the proper forms and paid an administrative fee) and are not yet receiving a pension. Note that limited membership requires an application, whereas other membership types apply automatically based on a member's stage of employment.

* Starting January 1, 2018, plan members will be able to earn more than 35 years of pensionable service.

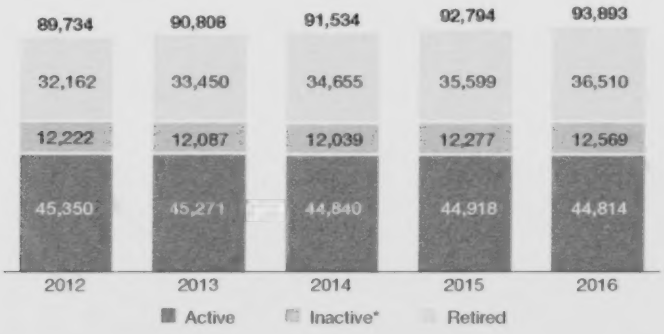
Employers

Plan employers are

- School districts, including the Francophone Education Authority,
- British Columbia Principals' and Vice-Principals' Association,
- British Columbia School Superintendents Association,
- British Columbia Teachers' Federation, and
- Teacher Qualification Service (British Columbia).

Charts and graphs (membership)

Number of members
as at December 31

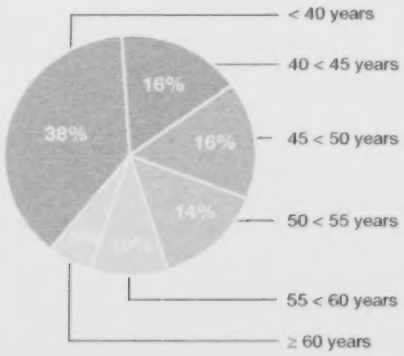


* Members no longer employed with a plan employer but with money in the plan.

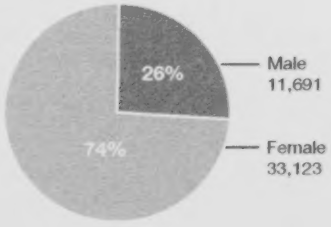
Membership growth, active vs. retired
2012–2016

With growth in retired membership continuing to exceed growth in active membership, there are now only 1.2 active members for every retired member

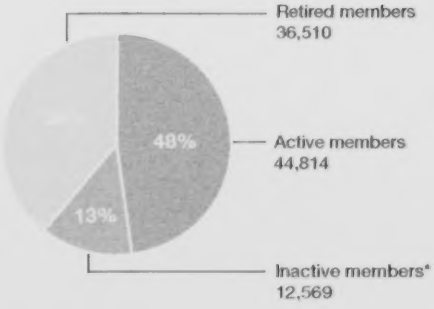
Active members, by age
as at December 31, 2016



Active members, by gender
as at December 31, 2016



Membership profile
as at December 31, 2016



* Members no longer employed by a plan employer, but with money in the plan.

Financial statements

PENSION CORPORATION
We make it easy

Executive Offices

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PO Box 9460
Victoria BC
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Location:
2995 Jutland Road
Victoria BC
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Phone:
250 387-8201
Fax:
250 953-0429

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Teachers' Pension Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Teachers' Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Independent Auditor's Report attached to these financial statements.

Trevor Fedyna, CPA CGA, C. Dir
Vice President Corporate Services
and Chief Financial Officer
British Columbia Pension Corporation

Kevin Craig, CPA CA
Director, Financial Services
British Columbia Pension Corporation

June 16, 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
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INDEPENDENT AUDITORS' REPORT

To the Members of the Teachers' Pension Plan

We have audited the accompanying financial statements of Teachers' Pension Plan, which comprise the statement of financial position as at December 31, 2016, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Teachers' Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits and the changes in its accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

June 16, 2017

Vancouver, Canada

Teachers' Pension Plan

TEACHERS' PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ millions)

As at December 31	Note	2016	2015
Assets			
Investments	3a	$ 25,473	$ 24,363
Receivables			
Members' contributions		14	17
Employers' contributions		14	18
Due from sale of investments		29	1,018
Derivatives	3b	36	3
		93	1,056
Total assets		25,566	25,419
Liabilities			
Payable for purchase of investments		-	852
Taxes payable		13	13
Accounts payable and accrued expenses		5	6
Derivatives	3b	19	88
Total liabilities		37	959
Net assets available for benefits		**$ 25,529**	**$ 24,460**
Accrued pension benefits			
Accrued pension benefits–basic	4a	$ 18,734	$ 18,172
Accrued pension benefits–non-guaranteed	4b	4,614	4,256
Accrued pension benefits		23,348	22,428
Surplus			
Funding surplus	5a	1,413	663
Measurement differences between funding and accounting positions	5a	768	1,369
Surplus		2,181	2,032
Accrued pension benefit and surplus		**$ 25,529**	**$ 24,460**

All accompanying notes are an integral part of the financial statements including:

- Commitments (note 14)
- Contingencies (note 15)

Approved by the Teachers' Pension Board of Trustees:

Joan Axford
Chair, Teachers' Pension Board of Trustees

Wayne Peterson
Trustee, Teachers' Pension Board of Trustees

Brad Underwood
Trustee, Teachers' Pension Board of Trustees

Teachers' Pension Plan

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ millions)

For the year ended December 31	Note	Basic account	Inflation adjustment account	Supplemental benefits account	Totals 2016	Totals 2015
Increase in assets						
Investment income	8	$ 1,207	$ 281	$ -	$ 1,488	$ 2,149
Contributions						
Members	9	278	84	-	362	356
Employers	9	348	54	1	403	418
		626	138	1	765	774
Transfers from other plans		7	2	-	9	4
Total increase in assets		1,840	421	1	2,262	2,927
Decrease in assets						
Benefits	10	1,121	3	-	1,124	1,093
Transfers to other plans		5	2	-	7	7
Investment and administration costs	11	52	9	1	62	56
Total decrease in assets		1,178	14	1	1,193	1,156
Increase in net assets before transfers		662	407	-	1,069	1,771
Account transfers	12	49	(49)	-	-	-
Increase in net assets		711	358	-	1,069	1,771
Nets assets available for benefits beginning of year		20,204	4,256	-	24,460	22,689
Nets assets available for benefits end of year		**$ 20,915**	**$ 4,614**	**$ -**	**$ 25,529**	**$ 24,460**

The accompanying notes are an integral part of the financial statements.

Teachers' Pension Plan

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ millions)

For the year ended December 31	Note	2016	2015
Increase in accrued pension benefits			
Interest on accrued pension benefits		$ 1,165	$ 1,130
Benefits accrued		428	420
Changes in actuarial assumptions		-	360
Account transfers		108	203
Total increase in accrued pension benefits		1,701	2,113
Decrease in accrued pension benefits			
Experience gains		-	589
Benefits paid		1,139	1,107
Total decrease in accrued pension benefits		1,139	1,696
Net increase in accrued pension benefits		562	417
Accrued basic pension benefits, beginning of year		18,172	17,755
Accrued basic pension benefits, end of year	4a	18,734	18,172
Non-guaranteed pension benefits			
Increase in non-guaranteed benefits accrued	4b	358	258
Accrued non-guaranteed pension benefits, beginning of year		4,256	3,998
Accrued non-guaranteed pension benefits, end of year	4b	4,614	4,256
Total accrued pension benefits, end of year		**$ 23,348**	**$ 22,428**

The accompanying notes are an integral part of the financial statements.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The following description of the Teachers' Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the Teachers' Pension Plan Rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued under joint trust agreement authorized by the *Public Sector Pension Plans Act*, SBC 1999, s. 44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established effective April 5, 2001. The partners to the Agreement are the Provincial Government and the B.C. Teachers' Federation (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Partners amended the Agreement December 2015. New contribution rates were established for both the basic and inflation adjustment accounts, effective July 1, 2016, reflecting the actuarial surplus identified in the December 31, 2014, actuarial valuation.

The Plan is registered with the Superintendent of Pensions, who administers and enforces the *Pension Benefits Standards Act* (PBSA). PBSA governs employment pension plans that have active, inactive and retired members primarily based in British Columbia.

Membership in the Plan is mandatory for all certified teachers (including teachers teaching-on-call), principals, vice-principals, superintendents, assistant superintendents, directors of instruction, associated professionals and certified professionals who are appointed by a board of education in the British Columbia public school system.

b) Roles and responsibilities

Partners

The Partners representing the Plan members and employers are responsible for appointing 10 trustees. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, may direct amendments to the pension plan rules.

Board

The Board is responsible for the management of the Plan, including the investment of assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by the Plan's surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 5a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, only the Partners can initiate pension plan rule changes that result in contribution rate increases. The Chair and Vice Chair are appointed by the trustees.

British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)

bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven-member board of directors of bcIMC.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

Basic Account

Members contributed to the Basic Account 9.55% (9.50% to June 30, 2016) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (2016: $54,900; 2015: $53,600) and 11.05% (11.00% to June 30, 2016) of salaries over YMPE, less amounts allocated to the Supplemental Benefits Account.

Employers contributed to the Basic Account 9.73% (13.50% to June 30, 2016) of salaries up to and including YMPE and 11.23% (15.00% to June 30, 2016) of salaries over YMPE, less amounts allocated to the Supplemental Benefits Account.

Inflation Adjustment Account and Supplemental Benefits Account

Members contributed 2.95% (3.00% to June 30, 2016) of salaries to the Inflation Adjustment Account (IAA). Employers contributed 3.08% (1.13% to June 30, 2016) of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account.

e) Pension benefits

Effective September 30, 2015, all members are eligible for a pension benefit. Prior to September 30, 2015, all members with two years of contributory service were eligible for a pension benefit.

Members are eligible for unreduced pension benefits

- at age 65;
- at age 60, with at least two years contributory service; or
- at age 55 or older, with age plus years of contributory service totalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to YMPE and 2.0% of pensionable earnings over YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA. Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

f) Termination and portability benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age, may choose

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or prior to September 30, 2015, if under age 60 with less than two years of contributory service, a refund of contributions with interest. Members with less than two years of contributory service terminating on or after September 30, 2015, will have the same termination options as members with two years or more of contributory service and will no longer be able to choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 60 who becomes totally and permanently disabled as defined by the Plan, has at least two years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 60 or returns to work.

A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) (Tax Act) (registration number 0227462), except for any supplemental benefits which are funded in addition to the RPP. The Plan is not subject to income taxes, but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of GST paid.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the *Chartered Professional Accountants of Canada (CPA Canada) Handbook*, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension benefits.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service that incorporates the independent actuary's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Use of estimates

The preparation of financial statements, in conformity with Canadian GAAP for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments that are based on unobservable inputs as further described in note 7 and the calculation of the accrued pension benefit of the Basic Account for accounting and funding purposes as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings	2016			2015		
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
Short-term	$ 392	$ 85	$ 477	$ 844	$ 177	$ 1,021
Bonds	2,738	599	3,337	2,929	615	3,544
Canadian equities	2,632	575	3,207	2,202	462	2,664
U.S. equities	2,262	495	2,757	2,284	480	2,764
International equities	6,007	1,313	7,320	5,777	1,212	6,989
Mortgages	408	89	497	405	85	490
Real estate	2,974	650	3,624	2,831	594	3,425
Private placement	1,297	284	1,581	1,276	268	1,544
IRR*	2,194	479	2,673	1,589	333	1,922
	$ 20,904	**$ 4,569**	**$ 25,473**	**$ 20,137**	**$ 4,226**	**$ 24,363**

* Infrastructure and renewable resources

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic and IAA accounts are combined for investment management purposes.

One or more pooled investment portfolios exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private placement; infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

3. INVESTMENTS (continued)

a) Investments (continued)

Short-term investments consist of Canadian and U.S. money market securities such as treasury bills with maturities of 15 months or less, and short-term bonds with one to five year terms. Short-term investments are valued using current market yields. Bonds consist of government bonds, investment grade and non-investment grade corporate bonds and debentures. Bonds are valued based on current market yields and, in some cases, quoted market prices. Equities consist primarily of publicly traded shares and, in the case of international equities, investments in the equity markets of Europe and Asia, as well as key emerging markets. Canadian, U.S. and international equities are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and valued using current market yields. Real estate investments consist mainly of diversified Canadian income-producing properties. Real estate investments are valued quarterly by external real estate investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside the structure of public markets. Private placements are valued annually based on audited financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada

Infrastructure and renewable resources consist of privately owned and managed infrastructure assets, and timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

The Plan directly holds infrastructure and renewable resources investments of $433 (2015: $363), short-term investments of $24 (2015: $46), and bonds of nil (2015: $8).

A collateral account for the Plan is established that is pledged as security for future investment opportunities. As at December 31, 2016, $0 (2015: $8) of bonds and $24 (2015: $46) of short-term investments are being held as collateral for a letter of credit.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

3. INVESTMENTS (continued)

b) Derivatives

The details of directly held foreign exchange contracts are as follows:

Fair value of derivative contracts	2016		2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Foreign exchange contracts				
Forwards	$ 36	$ (19)	$ 3	$ (88)
	$ 36	**$ (19)**	**$ 3**	**$ (88)**
Derivatives by investment asset classification				
International equities	$ -	$ -	$ -	$ (2)
Real estate	1	(7)	2	(16)
Private placement	7	-	-	(22)
Infrastructure and renewable resources	28	(12)	1	(48)
	$ 36	**$ (19)**	**$ 3**	**$ (88)**

Notional value of derivatives by terms to maturity	Within 1 year	1 to 5 years	Over 6 years	2016 Total	2015 Total
Foreign exchange contracts					
Forwards	$ 1,798	$ -	$ -	$ 1,798	$ 2,204
	$ 1,798	**$ -**	**$ -**	**$ 1,798**	**$ 2,204**

Derivative contracts consist of forward and future foreign exchange contracts and are held indirectly through various pooled investment portfolios and directly by the Plan to manage exposure to foreign currency risk. Foreign exchange contracts held directly are reflected at fair value, based on expected settlement amounts in effect at the date of the Statement of Financial Position.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. A foreign currency future contract is an exchange-traded contractual obligation to exchange one currency for another at a specified price and date in the future.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also, for accounting purposes the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation was prepared as at December 31, 2014, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits for financial statement purposes to be $17,526.

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to December 31, 2016, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

The extrapolation calculated the liability for accrued basic benefits to be $18,734 (2015: $18,172).

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings, and the incidence of retirements, withdrawals and changes in other factors may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of assumptions may be required.

The next full actuarial valuation will be carried out as at December 31, 2017.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at December 31, 2014, a reduction in the investment return assumption from 6.50% to 6.25% would have increased the December 31,–2016 liability for accrued basic benefits of $18,734 by $541 or 2.89%. Changes to assumptions included in the actuarial valuation are interrelated and the cumulative impact of changed assumptions may be offsetting.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

b) Inflation Adjustment Account (IAA), non-guaranteed pension benefits

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, 2016: $4,614 (2015: $4,256). The net increase of $358 (2015: $258) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account. (see note 12 for details on amounts transferred).

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date, and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry-age normal cost method (entry-age method). This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as-yet-unknown future cost-of-living adjustments.

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at December 31, 2014, by the independent actuary and based on the entry-age method; the valuation indicated an actuarial surplus of $449.

As a result of the 2014 basic account actuarial valuation surplus, the Board determined that a reduction in the basic contribution rate was permissible. Therefore, pursuant to the Agreement's funding arrangement for the transition period, the employer basic contribution rate decreased by 3.77% effective July 1, 2016, with a concurrent increase in the employer IAA contribution rate of 1.95%. Further, effective July 1, 2016, the member basic contribution rate increased by 0.05% with a concurrent decrease in the member IAA contribution rate of 0.05%. The total member contribution rate did not change.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

An estimate of the actuarial position of the plan for funding purposes has been made to December 31, 2016, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

This estimate, called an extrapolation, produced an estimated funding surplus of $1,413 as at December 31, 2016 (2015: $663 surplus), as follows:

Funding extrapolation	2016	2015
Net assets available for basic pension benefits	$ 20,915	$ 20,204
Actuarial asset value adjustment	(1,361)	(2,020)
Smoothed assets for basic pension benefits	19,554	18,184
Present value of future contributions (entry-age method)	4,691	4,606
Present value of future amortization	1,064	1,168
Net actuarial assets for basic pension benefits	25,309	23,958
Actuarial liability for accrued and future basic pension benefits	(23,896)	(23,295)
Entry-age method actuarial surplus	**$ 1,413**	**$ 663**

Changes in the extrapolated entry-age method funded status	2016	2015
Extrapolated entry-age method actuarial surplus, beginning of year	$ 663	$ 220
Extrapolated change in actuarial liability for accrued and future basic pension benefits	(601)	(796)
Extrapolated change in actuarial assets for basic pension benefits	1,351	1,239
Extrapolated entry-age method actuarial surplus, end of year	**$ 1,413**	**$ 663**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations various factors, including actual wage increases, investment earnings and the incidence of retirements, and withdrawals may vary significantly from the long-term assumptions used in the extrapolation.

Measurement difference between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry-age method funding surplus and the financial statement surplus are as follows:

Measurement difference between funding and accounting positions	2016	2015
Entry-age method actuarial surplus	$ 1,413	$ 663
Actuarial asset value adjustment	1,361	2,020
Difference in actuarial methods – present value of future contributions	(4,691)	(4,606)
Difference in actuarial methods – present value of future amortization	(1,064)	(1,168)
Difference in actuarial methods – present value of future liabilities	5,162	5,123
Measurement differences between funding and accounting positions	768	1,369
Surplus for financial statement purposes	**$ 2,181**	**$ 2,032**

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial asset value adjustment

For the purposes of determining the entry-age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis, which smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the value of the assets be smoothed within a certain corridor. In the 2014 valuation, the corridor required that the smoothed value be no more than 110% and no less than 90% of the market value of the assets. The smoothed value of the assets at December 31, 2016, was 93.5% of the market value of the assets (2015: 89.7% of the market value of assets in extrapolation, adjusted to 90% of the market value of assets).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry-age method actuarial surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

Actuarial asset value adjustment	**2016**	**2015**
Adjustment to 90% of market value	$ -	$ (53)
2016	-	851
2017	712	681
2018	418	383
2019	194	158
2020	37	-
Total adjustment	**$ 1,361**	**$ 2,020**

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses an entry-age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the plan.

Transitional period

The Agreement specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved.

During this transitional period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer Basic Account contribution rates
- Providing specified benefit improvements

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Transitional period (continued)

During this transitional period and after the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, funding for the granted cost-of-living adjustments on a net present value basis is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustments.

The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

The 2014 basic account actuarial valuation surplus permitted a reduction in the employer basic account contribution. As a result and pursuant to the Agreement's funding arrangement for the transition period, the Board increased the employer IAA contribution rate by 1.95% effective July 1, 2016, at the same time that the employer Basic Account contribution rate was decreased by 3.77%. Further, as required by the Agreement's funding arrangement for the transition period, the member IAA contribution rate decreased by 0.05% effective July 1, 2016.

6. FINANCIAL RISK MANAGEMENT

a) Risk management framework

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

b) Market risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of foreign currency risk, interest rate risk and other price risk. Market risk is managed through asset class diversification, diversification within each asset class and credit quality requirements on investments.

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

Foreign currency risk

Foreign currency exposure arises from foreign currency denominated investments held directly and indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward and future foreign currency contracts.

The Plan's total direct and indirect currency exposure, the impact of economic hedging and trading activities, and its net exposure as at December 31 are as follows:

Fair value of foreign denominated investment holdings

(Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
		2016		
United States	$ 7,427	$ 1,647	$ 5,780	54%
Asia-Pacific, excluding Japan	1,984	122	1,862	18%
Euro countries	1,345	315	1,030	10%
Japan	694	-	694	6%
Other	633	-	633	6%
Other Europe	405	-	405	4%
United Kingdom	466	258	208	2%
	$ 12,954	**$ 2,342**	**$ 10,612**	**100%**
		2015		
United States	$ 6,288	$ 1,617	$ 4,671	52%
Asia-Pacific, excluding Japan	1,734	19	1,715	19%
Japan	687	-	687	8%
Euro countries	1,226	597	629	7%
Other	570	-	570	6%
Other Europe	476	1	475	5%
United Kingdom	570	284	286	3%
	$ 11,551	**$ 2,518**	**$ 9,033**	**100%**

In addition to the investments in foreign currencies, the Plan held $12,565 (2015: $12,893) of investments denominated in Canadian dollars. The net foreign currency exposure represents 42% (2015: 37%) of the Plan's total investments.

Included in these totals, as at December 31, 2016, are net accounts receivable of $29 for outstanding purchase and sale of investments (2015: net accounts receivable of $166), and net derivatives receivable of $17 (2015: net derivatives payable of $85).

As at December 31, 2016, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $1,061 (2015: $903).

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6. FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios, as at December 31, are as follows:

Terms to maturity of interest-bearing financial instruments	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2016			
Money market	$ 218	$ 259	$ -	$ -	$ 477	1.67%
Bonds	85	1,076	704	754	2,619	2.43%
Real return bonds*	18	89	71	540	718	0.68%
Mortgages	159	284	54	-	497	2.69%
Debt	-	-	86	-	86	6.44%
	$ 480	**$ 1,708**	**$ 915**	**$ 1,294**	**$ 4,397**	
			2015			
Money market	$ 903	$ 115	$ 3	$ -	$ 1,021	0.75%
Bonds	26	700	1,110	911	2,747	2.18%
Real return bonds*	46	3	37	711	797	0.63%
Mortgages	221	236	33	-	490	2.33%
Debt	42	-	-	-	42	7.13%
	$ 1,238	**$ 1,054**	**$ 1,183**	**$ 1,622**	**$ 5,097**	

*Effective yield to maturity percentages are only the real return; inflation has not been considered.

As at December 31, 2016, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $324 (2015: $355).

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6. FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP. As at December 31, 2016, if equity prices increased or decreased by 10% with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $2,039 (2015: $1,858).

c) Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties, and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments	2016		2015	
AAA/AA	$ 1,973	45%	$ 2,541	50%
A	1,378	32%	1,680	33%
BBB	360	8%	344	7%
Non-investment grade	99	2%	-	0%
	3,810	87%	4,565	90%
Unrated	587	13%	532	10%
	$ 4,397	**100%**	**$ 5,097**	**100%**

The ratings used are defined by Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lender's capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker, with the BBB rating denoting an obligation with adequate protection parameters and a non-investment grade rating denoting major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the obligator's inadequate capacity to meet its financial commitment on the obligation. Unrated financial instruments mainly consist of mortgages that are secured by real estate.

Credit exposure also exists for members' and employers' contributions receivable and other non-investment assets directly held by the Plan totalling $28 (2015: $35), for the derivatives $36 (2015: $3) and for the due from sale of investments of $29 (2015: $1,018).

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6. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in pooled funds holding securities that are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $18 (2015: $19) and payable for purchase of investments of $nil (2015: $852) are generally due within one month. Derivatives payable of $19 (2015: $88) are due within the next fiscal year.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

Level 1

Inputs are unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3

Inputs that are not based on observable market data

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at December 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2016		
Pooled fund units	$ 180	$ 20,393	$ 4,443	$ 25,016
Direct investments	24	-	433	457
Investments	**$ 204**	**$ 20,393**	**$ 4,876**	**$ 25,473**
Derivatives	**$ -**	**$ 17**	**$ -**	**$ 17**
		2015		
Pooled fund units	$ 866	$ 19,475	$ 3,605	$ 23,946
Direct investments	46	50	321	417
Investments	**$ 912**	**$ 19,525**	**$ 3,926**	**$ 24,363**
Derivatives	**$ -**	**$ (85)**	**$ -**	**$ (85)**

During 2016 and 2015, there were no significant transfers of investments between levels.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Fair value hierarchy (continued)

The following table reconciles the Plan's level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct investments	Total
		2016	
Balance, beginning of year	$ 3,605	$ 321	$ 3,926
Net gains included in investment income	122	20	142
Purchases	1,311	103	1,414
Sales	(595)	(11)	(606)
Balance, end of year	**$ 4,443**	**$ 433**	**$ 4,876**
Total unrealized gain (loss) included in investment income	(157)	13	(144)
		2015	
Balance, beginning of year	$ 2,903	$ 247	$ 3,150
Net gains included in investment income	404	49	453
Purchases	612	43	655
Sales	(314)	(18)	(332)
Balance, end of year	**$ 3,605**	**$ 321**	**$ 3,926**
Total unrealized gain included in investment income	$ 325	$ 48	$ 373

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

bcIMC uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward or future currency contracts, and pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Valuation models (continued)

For more complex financial instruments, such as direct private placement investments held by the Plan, bcIMC uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. bcIMC's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that bcIMC believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

c) Valuation framework

bcIMC has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private placement investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where bcIMC is reliant on the third-party manager for the determination of fair value, bcIMC reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, bcIMC applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs;
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers;
- Analysis and investigation of significant valuation movements; and
- Review of unobservable inputs and valuation adjustments.

When third-party information such as broker quotes or pricing services is used to measure fair value, bcIMC assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by bcIMC for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Valuation framework (continued)

- When prices for similar financial instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the financial instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, understanding how fair value has been determined using those quotes.

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year end in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
			2016		
					The estimated fair value would increase if:
Pooled fund units	$ 4,443	Net asset value	Net asset value	$ 4,443	The net asset value increased
Direct private placements	$ 243	Adjusted discounted cash flows	Discount rate	6.3% to 9.1%	The discount rate was lowered
Direct private agriculture investments	$ 104	Net asset value	Net asset value	$ 104	The net asset value increased
Direct debt	$ 86	Recent round of financing	Transaction value		The transaction price increased
			2015		
					The estimated fair value would increase if:
Pooled fund units	$ 3,605	Net asset value	Net asset value	$ 3,605	The net asset value increased
Direct private placements	$ 232	Adjusted discounted cash flows	Discount rate	8.4% to 9.4%	The discount rate was lowered
Direct private agriculture investments	$ 89	Net asset value	Net asset value	$ 89	The net asset value increased

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value (continued)

Net asset value

Net asset value is determined by bcIMC based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and, accordingly, bcIMC is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as level 3 within the fair value hierarchy.

Discount rate

This represents the discount rate applied to the expected future cash flows of the direct private placement investment. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

Transaction value

This represents the value that the latest subscriber to the investment paid for ownership. The transaction price is an indicator of the fair value of the company.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonable alternative assumptions would have the following effects on net assets attributable to holders of redeemable units.

Effects of unobservable input on Level 3 fair value measurement

	2016		2015	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 444	$ (444)	$ 360	$ (360)
Direct investments	41	(41)	29	(29)
	$ 485	**$ (485)**	**$ 389**	**$ (389)**

The pooled fund units, direct private agriculture investments and direct debt investments were valued based on information received from bcIMC, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by bcIMC. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units and direct private agriculture investments has been calculated by adjusting the respective underlying net asset value by 10%.

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7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

e) Effects of unobservable input on fair value measurement (continued)

For direct private placement investments, bcIMC engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

f) Financial instruments not measured at fair value

The carrying value of members' contributions receivable, employers' contributions receivable, due from sale of investments, prepaid expenses, accounts payable and accrued expenses, taxes payable and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

8. INVESTMENT INCOME

	2016			2015		
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ 7	$ (1)	$ 6	$ 10	$ 1	$ 11
Bonds	89	17	106	87	26	113
Canadian equities	87	430	517	73	(260)	(187)
U.S. equities	38	153	191	56	424	480
International equities	177	(56)	121	169	846	1,015
Mortgages	26	(7)	19	19	1	20
Real estate	388	(200)	188	302	(43)	259
Private placements	288	(32)	256	216	187	403
Infrastructure and renewable resources	12	(10)	2	13	179	192
	1,112	294	1,406	945	1,361	2,306
Derivatives	-	82	82	-	(157)	(157)
	$ 1,112	**$ 376**	**$ 1,488**	**$ 945**	**$ 1,204**	**$ 2,149**

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives and unrealized gains and losses on investments and derivatives held at year-end. All income earned within a pooled investment portfolio is reinvested within the portfolio.

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9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2016		
Members' contributions				
Regular	$ 275	$ 83	$ -	$ 358
Past service purchases	3	1	-	4
	278	84	-	362
Employers' contributions				
Regular	346	54	1	401
Past service purchases	2	-	-	2
	348	54	1	403
	$ 626	**$ 138**	**$ 1**	**$ 765**
		2015		
Members' contributions				
Regular	$ 270	$ 82	$ -	$ 352
Past service purchases	3	1	-	4
	273	83	-	356
Employers' contributions				
Regular	385	30	1	416
Past service purchases	2	-	-	2
	387	30	1	418
	$ 660	**$ 113**	**$ 1**	**$ 774**

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

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10. BENEFITS

	Basic account	Inflation adjustment account	Total
		2016	
Regular pension benefits	$ 907	$ -	$ 907
Indexing – regular pension benefits	188	-	188
Termination and refund benefits	16	2	18
Death benefit payments	10	1	11
	$ 1,121	**$ 3**	**$ 1,124**
		2015	
Regular pension benefits	$ 878	$ -	$ 878
Indexing – regular pension benefits	184	-	184
Termination and refund benefits	17	3	20
Death benefit payments	10	1	11
	$ 1,089	**$ 4**	**$ 1,093**

11. INVESTMENT AND ADMINISTRATION COSTS

	2016	2015
Investment management	$ 47.9	$ 43.9
Benefit administration	12.8	11.3
Other professional services	0.3	0.3
Board secretariat costs	0.3	0.3
Board remuneration and expenses	0.3	0.3
Actuarial and audit	0.1	0.2
	$ 61.7	**$ 56.3**

bcIMC and Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover internal and external management costs incurred by bcIMC, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with supporting the Board.

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11. INVESTMENT AND ADMINISTRATION COSTS (continued)

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

12. ACCOUNT TRANSFERS

	2016		2015	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 106.2	$ (106.2)	$ 200.8	$ (200.8)
Indexing deferred pensions	1.6	(1.6)	1.9	(1.9)
Excess investment return	(58.4)	58.4	-	-
	$ 49.4	**$ (49.4)**	**$ 202.7**	**$ (202.7)**

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members, investment income earned and excess investment return earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any. As at January 1, 2016, retired members received a cost-of-living adjustment of 1.0% (2015: 2.0%).

When a deferred pension is paid, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $22 (2015: $21) of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return, the excess investment returns are transferred from the Basic Account to the IAA. Excess investment return is based on investment income earned on those assets in the Basic Account required for pensions currently being paid, approximately $11.2 billion of assets for 2016 (2015: $10.9 billion). The excess investment return rate is determined by taking the difference between the actual five-year annualized market rate of return (10.4%) and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess investment return rate for 2016 was 3.9% (2015: 3.3%), resulting in a positive excess investment return amount of $438 (2015: $361).

Should the excess investment return calculation ever result in a negative amount, it will be carried forward cumulatively with interest and offset against future excess return. The cumulative negative excess investment interest is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance. This component of the calculation is the opportunity cost related to the opening cumulative return deficit.

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12. ACCOUNT TRANSFERS (continued)

Excess (negative) investment return	2016	2015
Cumulative negative excess investment return, beginning of year	$ (344)	$ (642)
Interest applied to beginning of year amount	(36)	(63)
Excess investment return	438	361
Excess investment return transferred to IAA	(58)	-
Cumulative negative excess investment return, end of year	**$ -**	**$ (344)**

After taking into account the cumulative negative excess investment return balance, $58 was transferred from the Basic Account to the IAA.

13. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits that exceed Tax Act limits for registered pension plans are paid through this account.

14. COMMITMENTS

The Plan participates in private placement, international real estate, infrastructure and renewable resource pools that are managed by bcIMC. As at December 31, 2016, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $1,935 (2015: $1,919).

15. CONTINGENCIES

The Canadian Federal Government contests bcIMC's immunity from the imposition of goods and services tax or harmonized sales tax (HST/GST) under the *Excise Tax Act*, in respect of costs recovered by bcIMC from assets it holds in its pooled investment portfolios. In 2009, bcIMC was advised that the Canadian Federal Government was in discussions with the British Columbia Government regarding the application of HST/GST to costs recovered by bcIMC from assets held by bcIMC in pooled investment portfolios. In December 2013, bcIMC filed a petition in the Supreme Court of British Columbia (Court) seeking a declaration confirming its crown immunity in respect of HST/GST relating to costs recovered from assets held in pooled investment portfolios.

In November 2015, the Minister of National Revenue issued HST/GST reassessments–for the period July 1, 2010 to March 31, 2013. bcIMC has filed a Notice of Objection to this re-assessment.

In September 2016, the Court issued a ruling on a petition filed by bcIMC, holding that the pools were entitled to Crown immunity and therefore immune from HST/GST with respect to costs recovered by bcIMC, but also that bcIMC was bound by the provisions of the Reciprocal Tax Agreement and the Comprehensive Integrated Tax Coordination Agreement (jointly "Agreements") entered into between the British Columbia Government and Canadian Federal Government. The decision has been appealed by the federal government with respect to crown immunity and cross appealed by bcIMC with respect to whether bcIMC is bound by the Agreements.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

$ millions except as otherwise noted

15. CONTINGENCIES (continued)

bcIMC management is of the opinion that the Court will not deny bcIMC the ability to rely on its statutory crown immunity and that, as a consequence, ultimately no net HST/GST liability will arise. Consequently, the Plan has not accrued any liability for such tax. If the ultimate outcome is unfavourable to bcIMC's position, the Plan estimates the cumulative HST/GST owing for the period from April 1, 2010 to December 31, 2016, to be in the range of $95 to $105, including penalties and interest. This amount would be recoverable from assets in the pooled investment portfolios. The impact on the net asset value of pooled investment portfolio units held by the Plan, should HST/GST be payable, is estimated to be $18 to $20.

16. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively, and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan, and, in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan's assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2014, and has two components, the Basic Account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed IAA. The next full actuarial valuation will be carried out as at December 31, 2017.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of PBSA.

17. PRIOR YEAR COMPARATIVES

The prior year comparatives have been reclassified to conform to the current year presentation.

Teachers' Pension Plan

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MISSION STATEMENT
To fulfill the trust the partners have placed on us by effectively and efficiently meeting the pension promise to provide retirement income to plan members.

The information in this booklet is based on legislation and BC's Teachers' Pension Plan Rules in effect as of December 31, 2016, except where otherwise noted. In the event of any variation between the information in this booklet and the provisions of the statutes, regulations and plan rules that govern any benefits available under BC's Teachers' Pension Plan, the latter will prevail.

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